

receivable are concentrated in the telecommunications industry. The Company's principal customers (Note 10) accounted for 71% and 30% of the Company's accounts receivable as of December 31, 1999 and 1998, respectively. The Company has no significant financial instruments with off-balance sheet risk of accounting loss, such as foreign exchange contracts, option contracts or other foreign currency hedging arrangements.

Research and Development

Research and development efforts consist of salaries, supplies and other related costs. These costs are expensed as incurred and totaled approximately \$1,740,000, \$1,376,000 and \$738,000 for the years ended December 31, 1999, 1998 and 1997, respectively. These costs are included in cost of sales management services and licenses and implementation services in the accompanying statements of operations and do not include development costs incurred as part of the efforts performed under licenses and implementation services contracts with the Company's customers.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include highly liquid investments with original maturities of 90 days or less.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Market Value of Financial Instruments

Financial instruments include cash and cash equivalents, corporate debt securities, accounts receivable and debt obligations. The carrying amounts for cash and cash equivalents and accounts receivable approximate fair market value because of the short maturity of these instruments. The fair value of notes are estimated based on current rates available for debt with similar maturities and securities, and at December 31, 1999 and 1998, approximates the carrying value.

Investments in Marketable Securities

The Company's investments in corporate debt securities are classified as held-to-maturity and are carried at the amortized cost basis. The investments had the following values at December 31, 1999 and 1998, respectively:

Income Taxes

The Company follows Statement of Financial Accounting Standards No. 109 ("SFAS 109"), which requires recognition of deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax basis of assets and liabilities. SFAS 109 also requires recognition of deferred tax assets for the expected future tax effects of loss carryforwards and tax credit carryforwards. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, on a more likely than not basis, are not expected to be realized (Note 6).

Stock Based Compensation Plans

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB Opinion No. 25") in accounting for its stock option and other stock-based compensation plan for employees and directors. The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," for such options and stock-based plans for employees and directors (Note 4).

Amortized/ Accrued Cost	Accrued Interest	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from future undiscounted cash flows. Impairment losses are recorded for the excess, if any, of the carrying value over the fair value of the long-lived assets.

Earnings Per Share

The Company presents basic and diluted earnings or loss per share in accordance with Statement of Financial Accounting Standards No. 128 "Earnings Per Share" ("SFAS 128"), which establishes standards for computing and presenting basic and diluted earnings per share. Under this statement, basic income

(loss) per share is determined by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted income (loss) per share includes the effects of potentially issuable common stock, but only if dilutive (i.e., a loss per share is never reduced). The treasury stock method, using the average price of the Company's common stock for the period, is applied to determine dilution from options and warrants. The if-converted method is used for convertible securities. Potentially dilutive common stock options that were excluded from the calculation of diluted income per share because their effect is antidilutive totaled 1,085,747, 51,000 and 236,017 in 1999, 1998 and 1997, respectively.

A reconciliation of the numerators and denominators used in computing per share net income from continuing operations is as follows:

	Year Ended December 31,		
	1999	1998	1997
Numerator			
Net income (loss) from continuing operations			
Before extraordinary items, income tax and minority interest	\$ (1,062,000)	\$ 3,380,000	\$ 7,783,000
Extraordinary items, income tax and minority interest			
Dividends on Convertible Preferred Stock		(355,000)	(740,000)
Convertible stock, interest, and other adjustments		(77,000)	(0,000)
Minority interest for sales tax credit (loss) per share			
Continuing operations before extraordinary items	\$ (1,062,000)	\$ 3,025,000	\$ 7,043,000
Extraordinary items for sales tax credit (loss) per share			
Weighted average common shares outstanding	10,469,891	8,433,569	1,887,413
Denominator for diluted income (loss) per share			
Convertible Preferred Stock		335,000	616,475
Weighted average common shares outstanding	10,469,891	8,768,569	2,503,888
Options issued to employees		152,361	78,000
Options issued to directors		80,728	22,225
Denominator for diluted income (loss) per share	10,469,891	9,136,658	2,604,563

Income (loss) per common share was computed as follows:

	1999	1998	1997
Income (loss) per share from continuing operations	\$ (0.10)	\$ 0.35	\$ 3.73
Extraordinary items	(0.02)	0.00	0.00
Income (loss) per share from continuing operations	\$ (0.12)	\$ 0.35	\$ 3.73
Dividends on Convertible Preferred Stock			
Income (loss) per share from continuing operations	\$ (0.10)	\$ 0.35	\$ 3.73
Extraordinary items	(0.02)	0.00	0.00
Income (loss) per share from continuing operations	\$ (0.12)	\$ 0.35	\$ 3.73

Recently Issued Accounting Pronouncements
Statement of Financial Accounting Standards
No. 133 and No. 137

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. It requires an entity to recognize its derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS Statement No. 133 - An amendment of FASB Statement No. 133" ("SFAS No. 137"). SFAS No. 137 delays the effective date of SFAS No. 133 to financial quarters and financial years beginning after June 15, 2000. The Company does not typically enter into arrangements that would fall under the scope of Statement No. 133 and thus, management believes that Statement No. 133 will not significantly affect its financial condition and results of operations.

Statement of Position 98-9

In December 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-9 ("SOP 98-9"), "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." SOP 98-9 amends certain paragraphs of Statement of Position 97-2 ("SOP 97-2"), "Software Revenue Recognition," to require the application of a residual method of accounting for software revenue when certain conditions exist. SOP 98-9 also amends Statement of Position 98-4 ("SOP 98-4"), "Deferral of the Effective Date of a Provision of SOP 97-2" to extend the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. Earlier adoption is permitted; however,

retroactive application is prohibited. The Company believes SOP 98-9 will not materially impact its financial statements.

Staff Accounting Bulletin No. 101

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, "Revenue Recognition" ("SAB 101"). SAB 101 provides interpretive guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB 101 must be applied to financial statements no later than the second fiscal quarter of 2000. The Company is currently reviewing SAB 101 to determine what impact, if any, the adoption of SAB 101 will have on its financial position and results of operations.

(3) Discontinued Operations

On June 30, 1997, the Company sold the net assets of its Premise Products Division. The sale resulted in a net loss of \$2,032,000. The net losses of this division are included in the statements of operations as loss from operations of discontinued division. Revenue from the division for the six months ended June 30, 1997 was \$5,785,000. Net losses from operations of this division totaled \$226,000 and \$876,000 in 1998 and 1997, respectively, and are presented in the Company's financial statements as loss from operations of discontinued division. The loss from discontinued operations in 1999 resulted from final closeout of unassigned contracts and the transition of customers to the company that acquired this division.

(4) Stockholders' Equity (Deficit)

Common Stock and Preferred Stock
In March 1998, the Company's Board of Directors authorized an increase in common stock to 30,000,000 shares and authorized 15,000,000 shares of undesignated preferred stock. In 1998 the Company also retired 36,250 shares of treasury stock.

Mandatorily Redeemable Convertible Preferred Stock
In connection with the Company's initial public offering in June 1998, the Company's mandatorily redeemable convertible preferred stock was converted on a one-for-one basis to common stock. Activity for 1997, 1998 and 1999 is as follows:

The activity related to the liquidation or redemption value of Series A through Series F Convertible Preferred Stock for the periods ended December 31, 1997, 1998 and 1999 is as follows:

Liquidation or Redemption Value						
	Series A	Series B	Series C	Series D	Series E	Series F
Balance at January 1, 1997	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Issuance of Series A	1,000,000					
Issuance of Series B		1,000,000				
Issuance of Series C			1,000,000			
Issuance of Series D				1,000,000		
Issuance of Series E					1,000,000	
Issuance of Series F						1,000,000
Balance at December 31, 1997	\$2,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Balance at January 1, 1998	\$2,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Issuance of Series A	1,000,000					
Issuance of Series B		1,000,000				
Issuance of Series C			1,000,000			
Issuance of Series D				1,000,000		
Issuance of Series E					1,000,000	
Issuance of Series F						1,000,000
Balance at December 31, 1998	\$3,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Balance at January 1, 1999	\$3,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Issuance of Series A	1,000,000					
Issuance of Series B		1,000,000				
Issuance of Series C			1,000,000			
Issuance of Series D				1,000,000		
Issuance of Series E					1,000,000	
Issuance of Series F						1,000,000
Balance at December 31, 1999	\$4,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000

Putable Common Stock Warrant

In November 1997, the Company borrowed \$4,000,000 from Banc One Capital Partners II, LLC (the "Lender") (Note 5). In connection with the loan, the Lender received a warrant to purchase 195,148 shares of the Company's common stock for \$100. In June 1998, the Lender exercised this warrant. Because of the put feature of the warrant, the Company recorded an amount equal to the number of shares under the warrant times the difference between the current market value, as defined, and the market value of the shares at the time the warrant was issued. This amount was recorded as an increase in the value of the puttable common stock warrant and charged to accumulated deficit in the accompanying financial statements through the time that the warrant was exercised. The amount recorded was \$77,000 and \$8,000 in 1998 and 1997, respectively.

Stock Subscriptions Revocable

In September 1997, in connection with the sale of the Company's Premise Products Division, several former employees of the Company signed full recourse promissory notes to the Company to exercise their vested stock options. The notes accrue interest at 6.07% per annum. The Company exercised the due date on the notes to March 20, 1999 and is pursuing collection of the note that remains unpaid.

Stock Option Plan

The Company adopted the 1998 Stock Incentive Plan ("1998 Plan") effective June 23, 1998, which is a successor to the Company's 1990 Option Plan. As of December 31, 1999, a total of 3,257,647 shares have been authorized for issuance

under the 1998 Plan, including shares authorized under the 1990 Option Plan. The shares reserved for issuance will increase automatically on the first trading day of each calendar year, beginning with the 1999 calendar year, by 3% of the number of shares of common stock outstanding on the last trading day of the immediately preceding calendar year. The share reserve was increased by 326,590 shares under this provision in 1999. The 1998 Plan allows for issuances of options to officers, non-employee Board members and consultants, as provided for under the terms of the 1998 Plan.

Employee Stock Purchase Plan

On March 18, 1998, the Company adopted an employee stock purchase plan ("ESPP") under which eligible employees may contribute up to 10% of their salaries through payroll deductions to purchase shares of the Company's common stock. The first offering period of the ESPP began March 1, 1998 and ended on December 31, 1998. Thereafter, offering periods will be successive six month periods. At the end of each offering period, amounts contributed by employees will be used to purchase shares of the Company's common stock at a price equal to 85% of the lower of the closing price of the common stock on the first day or last day of the offering period. The Company's Board of Directors has authorized the issuance of up to 200,000 shares under the ESPP and may terminate the ESPP at any time. As March 1 of each year, the shares available under the ESPP will be restored to 200,000, although the Company's Board of Directors may elect to restore a lower number of shares. The Company issued 38,679 and 61,103 shares under the ESPP in 1999 and 1998, respectively.

Statement of Financial Accounting Standards
No. 123 ("SFAS 123")

SPS 123 ("SPS 123")¹ SFAS 123, "Accounting for Stock-Based Compensation," defines a fair value based method of accounting for employee stock options or similar equity instruments. However, SFAS 123 allows the continued measurement of compensation cost for such plans using the intrinsic value based method prescribed by APB Opinion No. 25, provided that pro forma disclosures are made of net income or loss assuming the fair value based method of SFAS 123 had been applied. The Company has elected to account for its stock-based compensation plans under APB 25; accordingly, for purposes of the pro forma disclosures presented below, the Company has computed the fair values of all options granted under the 1998 Plan, which succeeds the 1990 Option Plan, during 1999, 1998 and 1987, using the Black-Scholes pricing model and the following weighted average assumptions:

To estimate lives of options for this valuation, it was assumed options would be exercised upon expiring fully vested. All options are initially fully vested. Complete compensation costs are assigned in *pro forma* terms of increase or loss with respect to options that are forfeited prior to vesting is adjusted as a reduction of *pro forma* compensation expense in the period of forfeiture. Because the Company's common stock was not yet publicly traded, the expected market volatility was assumed to be zero in 1997. In 1998 and 1999, the Company's common stock was not yet traded for an extended period of time, thus the expected market volatility was based on the stock prices of comparable whose operations are similar to the Company's.

Actual volatility of the Company's common stock may vary. Fair value computations are highly sensitive to the volatility factor assumed; the greater the volatility, the higher the computed fair value of options granted.

The total fair value of options granted under the 1998 Option Plan and the ESPP was computed to be approximately \$2,630,000, \$1,406,000 and \$499,000 for the years ended December 31, 1999, 1998 and 1997, respectively. These amounts are amortized ratably over the vesting periods of the options or recognized at date of grant if no vesting period is required. Pro forma stock-based compensation, net of the effect of forfeitures, was \$406,000, \$417,000 and \$232,000 for 1999, 1998 and 1997, respectively.

A summary of stock options under the 1998 Plan and the ESPP as of December 31, 1999, 1998 and 1997 and changes during the years then ended are presented below:

	1997	1996	1997
		Weighted Average Exercise Price	Weighted Average Exercise Price
Shares		Shares	
1,338,800	\$ 3.62		
740,364	\$ 3.15		
(178,079)	\$ 2.56		
(245,301)	\$ 5.43		
1,455,664	\$ 4.13		
1,234,344	\$ 3.54		

The following table summarizes information about the options outstanding at December 31, 1999:

		Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number of Shares	Weighted Average		Weighted Average Contractual Term, in Years	Number of Shares	Weighted Average	
		Exercise Price	Exercise Price			Exercise Price	Exercise Price
\$0.00 - \$0.05	1,000	\$0.02	1.0	\$0.02	1,000	\$0.02	1.0
\$0.05 - \$0.10	1,000	\$0.07	1.0	\$0.07	1,000	\$0.07	1.0
\$0.10 - \$0.15	1,000	\$0.12	1.0	\$0.12	1,000	\$0.12	1.0
\$0.15 - \$0.20	1,000	\$0.17	1.0	\$0.17	1,000	\$0.17	1.0
\$0.20 - \$0.25	1,000	\$0.22	1.0	\$0.22	1,000	\$0.22	1.0
\$0.25 - \$0.30	1,000	\$0.27	1.0	\$0.27	1,000	\$0.27	1.0
\$0.30 - \$0.35	1,000	\$0.32	1.0	\$0.32	1,000	\$0.32	1.0
\$0.35 - \$0.40	1,000	\$0.37	1.0	\$0.37	1,000	\$0.37	1.0
\$0.40 - \$0.45	1,000	\$0.42	1.0	\$0.42	1,000	\$0.42	1.0
\$0.45 - \$0.50	1,000	\$0.47	1.0	\$0.47	1,000	\$0.47	1.0
\$0.50 - \$0.55	1,000	\$0.52	1.0	\$0.52	1,000	\$0.52	1.0
\$0.55 - \$0.60	1,000	\$0.57	1.0	\$0.57	1,000	\$0.57	1.0
\$0.60 - \$0.65	1,000	\$0.62	1.0	\$0.62	1,000	\$0.62	1.0
\$0.65 - \$0.70	1,000	\$0.67	1.0	\$0.67	1,000	\$0.67	1.0
\$0.70 - \$0.75	1,000	\$0.72	1.0	\$0.72	1,000	\$0.72	1.0
\$0.75 - \$0.80	1,000	\$0.77	1.0	\$0.77	1,000	\$0.77	1.0
\$0.80 - \$0.85	1,000	\$0.82	1.0	\$0.82	1,000	\$0.82	1.0
\$0.85 - \$0.90	1,000	\$0.87	1.0	\$0.87	1,000	\$0.87	1.0
\$0.90 - \$0.95	1,000	\$0.92	1.0	\$0.92	1,000	\$0.92	1.0
\$0.95 - \$1.00	1,000	\$0.97	1.0	\$0.97	1,000	\$0.97	1.0
\$1.00 - \$1.05	1,000	\$1.02	1.0	\$1.02	1,000	\$1.02	1.0
\$1.05 - \$1.10	1,000	\$1.07	1.0	\$1.07	1,000	\$1.07	1.0
\$1.10 - \$1.15	1,000	\$1.12	1.0	\$1.12	1,000	\$1.12	1.0
\$1.15 - \$1.20	1,000	\$1.17	1.0	\$1.17	1,000	\$1.17	1.0
\$1.20 - \$1.25	1,000	\$1.22	1.0	\$1.22	1,000	\$1.22	1.0
\$1.25 - \$1.30	1,000	\$1.27	1.0	\$1.27	1,000	\$1.27	1.0
\$1.30 - \$1.35	1,000	\$1.32	1.0	\$1.32	1,000	\$1.32	1.0
\$1.35 - \$1.40	1,000	\$1.37	1.0	\$1.37	1,000	\$1.37	1.0
\$1.40 - \$1.45	1,000	\$1.42	1.0	\$1.42	1,000	\$1.42	1.0
\$1.45 - \$1.50	1,000	\$1.47	1.0	\$1.47	1,000	\$1.47	1.0
\$1.50 - \$1.55	1,000	\$1.52	1.0	\$1.52	1,000	\$1.52	1.0
\$1.55 - \$1.60	1,000	\$1.57	1.0	\$1.57	1,000	\$1.57	1.0
\$1.60 - \$1.65	1,000	\$1.62	1.0	\$1.62	1,000	\$1.62	1.0
\$1.65 - \$1.70	1,000	\$1.67	1.0	\$1.67	1,000	\$1.67	1.0
\$1.70 - \$1.75	1,000	\$1.72	1.0	\$1.72	1,000	\$1.72	1.0
\$1.75 - \$1.80	1,000	\$1.77	1.0	\$1.77	1,000	\$1.77	1.0
\$1.80 - \$1.85	1,000	\$1.82	1.0	\$1.82	1,000	\$1.82	1.0
\$1.85 - \$1.90	1,000	\$1.87	1.0	\$1.87	1,000	\$1.87	1.0
\$1.90 - \$1.95	1,000	\$1.92	1.0	\$1.92	1,000	\$1.92	1.0
\$1.95 - \$2.00	1,000	\$1.97	1.0	\$1.97	1,000	\$1.97	1.0
\$2.00 - \$2.05	1,000	\$2.02	1.0	\$2.02	1,000	\$2.02	1.0
\$2.05 - \$2.10	1,000	\$2.07	1.0	\$2.07	1,000	\$2.07	1.0
\$2.10 - \$2.15	1,000	\$2.12	1.0	\$2.12	1,000	\$2.12	1.0
\$2.15 - \$2.20	1,000	\$2.17	1.0	\$2.17	1,000	\$2.17	1.0
\$2.20 - \$2.25	1,000	\$2.22	1.0	\$2.22	1,000	\$2.22	1.0
\$2.25 - \$2.30	1,000	\$2.27	1.0	\$2.27	1,000	\$2.27	1.0
\$2.30 - \$2.35	1,000	\$2.32	1.0	\$2.32	1,000	\$2.32	1.0
\$2.35 - \$2.40	1,000	\$2.37	1.0	\$2.37	1,000	\$2.37	1.0
\$2.40 - \$2.45	1,000	\$2.42	1.0	\$2.42	1,000	\$2.42	1.0
\$2.45 - \$2.50	1,000	\$2.47	1.0	\$2.47	1,000	\$2.47	1.0
\$2.50 - \$2.55	1,000	\$2.52	1.0	\$2.52	1,000	\$2.52	1.0
\$2.55 - \$2.60	1,000	\$2.57	1.0	\$2.57	1,000	\$2.57	1.0
\$2.60 - \$2.65	1,000	\$2.62	1.0	\$2.62	1,000	\$2.62	1.0
\$2.65 - \$2.70	1,000	\$2.67	1.0	\$2.67	1,000	\$2.67	1.0
\$2.70 - \$2.75	1,000	\$2.72	1.0	\$2.72	1,000	\$2.72	1.0
\$2.75 - \$2.80	1,000	\$2.77	1.0	\$2.77	1,000	\$2.77	1.0
\$2.80 - \$2.85	1,000	\$2.82	1.0	\$2.82	1,000	\$2.82	1.0
\$2.85 - \$2.90	1,000	\$2.87	1.0	\$2.87	1,000	\$2.87	1.0
\$2.90 - \$2.95	1,000	\$2.92	1.0	\$2.92	1,000	\$2.92	1.0
\$2.95 - \$3.00	1,000	\$2.97	1.0	\$2.97	1,000	\$2.97	1.0
\$3.00 - \$3.05	1,000	\$3.02	1.0	\$3.02	1,000	\$3.02	1.0
\$3.05 - \$3.10	1,000	\$3.07	1.0	\$3.07	1,000	\$3.07	1.0
\$3.10 - \$3.15	1,000	\$3.12	1.0	\$3.12	1,000	\$3.12	1.0
\$3.15 - \$3.20	1,000	\$3.17	1.0	\$3.17	1,000	\$3.17	1.0
\$3.20 - \$3.25	1,000	\$3.22	1.0	\$3.22	1,000	\$3.22	1.0
\$3.25 - \$3.30	1,000	\$3.27	1.0	\$3.27	1,000	\$3.27	1.0
\$3.30 - \$3.35	1,000	\$3.32	1.0	\$3.32	1,000	\$3.32	1.0
\$3.35 - \$3.40	1,000	\$3.37	1.0	\$3.37	1,000	\$3.37	1.0
\$3.40 - \$3.45	1,000	\$3.42	1.0	\$3.42	1,000	\$3.42	1.0
\$3.45 - \$3.50	1,000	\$3.47	1.0	\$3.47	1,000	\$3.47	1.0
\$3.50 - \$3.55	1,000	\$3.52	1.0	\$3.52	1,000	\$3.52	1.0
\$3.55 - \$3.60	1,000	\$3.57	1.0	\$3.57	1,000	\$3.57	1.0
\$3.60 - \$3.65	1,000	\$3.62	1.0	\$3.62	1,000	\$3.62	1.0
\$3.65 - \$3.70	1,000	\$3.67	1.0	\$3.67	1,000	\$3.67	1.0
\$3.70 - \$3.75	1,000	\$3.72	1.0	\$3.72	1,000	\$3.72	1.0
\$3.75 - \$3.80	1,000	\$3.77	1.0	\$3.77	1,000	\$3.77	1.0
\$3.80 - \$3.85	1,000	\$3.82	1.0	\$3.82	1,000	\$3.82	1.0
\$3.85 - \$3.90	1,000	\$3.87	1.0	\$3.87	1,000	\$3.87	1.0
\$3.90 - \$3.95	1,000	\$3.92	1.0	\$3.92	1,000	\$3.92	1.0
\$3.95 - \$4.00	1,000	\$3.97	1.0	\$3.97	1,000	\$3.97	1.0
\$4.00 - \$4.05	1,000	\$4.02	1.0	\$4.02	1,000	\$4.02	1.0
\$4.05 - \$4.10	1,000	\$4.07	1.0	\$4.07	1,000	\$4.07	1.0
\$4.10 - \$4.15	1,000	\$4.12	1.0	\$4.12	1,000	\$4.12	1.0
\$4.15 - \$4.20	1,000	\$4.17	1.0	\$4.17	1,000	\$4.17	1.0
\$4.20 - \$4.25	1,000	\$4.22	1.0	\$4.22	1,000	\$4.22	1.0
\$4.25 - \$4.30	1,000	\$4.27	1.0	\$4.27	1,000	\$4.27	1.0
\$4.30 - \$4.35	1,000	\$4.32	1.0	\$4.32	1,000	\$4.32	1.0
\$4.35 - \$4.40	1,000	\$4.37	1.0	\$4.37	1,000	\$4.37	1.0
\$4.40 - \$4.45	1,000	\$4.42	1.0	\$4.42	1,000	\$4.42	1.0
\$4.45 - \$4.50	1,000	\$4.47	1.0	\$4.47	1,000	\$4.47	1.0
\$4.50 - \$4.55	1,000	\$4.52	1.0	\$4.52	1,000	\$4.52	1.0
\$4.55 - \$4.60	1,000	\$4.57	1.0	\$4.57	1,000	\$4.57	1.0
\$4.60 - \$4.65	1,000	\$4.62	1.0	\$4.62	1,000	\$4.62	1.0
\$4.65 - \$4.70	1,000	\$4.67	1.0	\$4.67	1,000	\$4.67	1.0
\$4.70 - \$4.75	1,000	\$4.72	1.0	\$4.72	1,000	\$4.72	1.0
\$4.75 - \$4.80	1,000	\$4.77	1.0	\$4.77	1,000	\$4.77	1.0
\$4.80 - \$4.85	1,000	\$4.82	1.0	\$4.82	1,000	\$4.82	1.0
\$4.85 - \$4.90	1,000	\$4.87	1.0	\$4.87	1,000	\$4.87	1.0
\$4.90 - \$4.95	1,000	\$4.92	1.0	\$4.92	1,000	\$4.92	1.0
\$4.95 - \$5.00	1,000	\$4.97	1.0	\$4.97	1,000	\$4.97	1.0
\$5.00 - \$5.05	1,000	\$5.02	1.0	\$5.02	1,000	\$5.02	1.0
\$5.05 - \$5.10	1,000	\$5.07	1.0	\$5.07	1,000	\$5.07	1.0
\$5.10 - \$5.15	1,000	\$5.12	1.0	\$5.12	1,000	\$5.12	1.0
\$5.15 - \$5.20	1,000	\$5.17	1.0	\$5.17	1,000	\$5.17	1.0
\$5.20 - \$5.25	1,000	\$5.22	1.0	\$5.22	1,000	\$5.22	1.0
\$5.25 - \$5.30	1,000	\$5.27	1.0	\$5.27	1,000	\$5.27	1.0
\$5.30 - \$5.35	1,000	\$5.32	1.0	\$5.32	1,000	\$5.32	1.0
\$5.35 - \$5.40	1,000	\$5.37	1.0	\$5.37	1,000	\$5.37	1.0
\$5.40 - \$5.45	1,000	\$5.42	1.0	\$5.42	1,000	\$5.42	1.0
\$5.45 - \$5.50	1,000	\$5.47	1.0	\$5.47	1,000	\$5.47	1.0
\$5.50 - \$5.55	1,000	\$5.52	1.0	\$5.52	1,000	\$5.52	1.0
\$5.55 - \$5.60	1,000	\$5.57	1.0	\$5.57	1,000	\$5.57	1.0
\$5.60 - \$5.65	1,000	\$5.62	1.0	\$5.62	1,000	\$5.62	1.0
\$5.65 - \$5.70	1,000	\$5.67	1.0	\$5.67	1,000	\$5.67	1.0
\$5.70 - \$5.75	1,000	\$5.72	1.0	\$5.72	1,000	\$5.72	1.0
\$5.75 - \$5.80	1,000	\$5.77	1.0	\$5.77	1,000	\$5.77	1.0
\$5.80 - \$5.85	1,000	\$5.82	1.0	\$5.82	1,000	\$5.82	1.0
\$5.85 - \$5.90	1,000	\$5.87	1.0	\$5.87	1,000	\$5.87	1.0
\$5.90 - \$5.95	1,000	\$5.92	1.0	\$5.92	1,000	\$5.92	1.0
\$5.95 - \$6.00	1,000	\$5.97	1.0	\$5.97	1,000	\$5.97	1.0
\$6.00 - \$6.05	1,000	\$6.02	1.0	\$6.02	1,000	\$6.02	1.0
\$6.05 - \$6.10	1,000	\$6.07	1.0	\$6.07	1,000	\$6.07	1.0
\$6.10 - \$6.15	1,000	\$6.12	1.0	\$6.12	1,000	\$6.12	1.0
\$6.15 - \$6.20	1,000	\$6.17	1.0	\$6.17	1,000	\$6.17	1.0
\$6.20 - \$6.25	1,000	\$6.22	1.0	\$6.22	1,000	\$6.22	1.0
\$6.25 - \$6.30	1,000	\$6.27	1.0	\$6.27	1,000	\$6.27	1.0
\$6.30 - \$6.35	1,000	\$6.32	1.0	\$6.32	1,000	\$6.32	1.0
\$6.35 - \$6.40	1,000	\$6.37	1.0	\$6.37	1,000	\$6.37	1.0
\$6.40 - \$6.45	1,000	\$6.42	1.0	\$6.42	1,000	\$6.42	1.0
\$6.45 - \$6.50	1,000	\$6.47	1.0	\$6.47	1,000	\$6.47	1.0
\$6.50 - \$6.55	1,000	\$6.52	1.0	\$6.52	1,000	\$6.52	1.0
\$6.55 - \$6.60	1,000	\$6.57	1.0	\$6.57	1,000	\$6.57	1.0
\$6.60 - \$6.65	1,000	\$6.62	1.0	\$6.62	1,000	\$6.62	1.0
\$6.65 - \$6.70	1,000	\$6.67	1.0	\$6.67	1,000	\$6.67	1.0
\$6.70 - \$6.75	1,000	\$6.72	1.0	\$6.72	1,000	\$6.72	1.0
\$6.75 - \$6.80	1,000	\$6.77	1.0	\$6.77	1,000	\$6.77	1.0
\$6.80 - \$6.85	1,000	\$6.82	1.0	\$6.82	1,000	\$6.82	1.0
\$6.85 - \$6.90	1,000	\$6.87	1.0	\$6.87	1,000	\$6.87	1.0
\$6.90 - \$6.95	1,000	\$6.92	1.0	\$6.92	1,000	\$6.92	1.0
\$6.95 - \$7.00	1,000	\$6.97	1.0	\$6.97	1,000	\$6.97	1.0
\$7.00 - \$7.05	1,000	\$7.02	1.0	\$7.02	1,000	\$7.02	1.0
\$7.05 - \$7.10	1,000	\$7.07	1.0	\$7.07	1,000	\$7.07	1.0
\$7.10 - \$7.15	1,000	\$7.12	1.0	\$7.12	1,000	\$7.12	1.0
\$7.15 - \$7.20	1,000	\$7.17	1.0	\$7.17	1,000	\$7.17	1.0
\$7.20 - \$7.25	1,000	\$7.22	1.0	\$7.22	1,000	\$7.22	1.0
\$7.25 - \$7.30	1,000	\$7.27	1.0	\$7.27	1,000	\$7.27	1.0
\$7.30 - \$7.35	1,000	\$7.32	1.0	\$7.32	1,000	\$7.32	1.0
\$7.35 - \$7.40	1,000	\$7.37	1.0	\$7.37	1,000	\$7.37	1.0
\$7.40 - \$7.45	1,000	\$7.42	1.0	\$7.42	1,000	\$7.42	1.0
\$7.45 - \$7.50	1,00						

If the Company had accounted for its stock-based compensation plan in accordance with SFAS 123, the Company's net income from continuing operations would have been reported as follows:

	1999	1998	1997
Imports and re-exports			
As reported	\$ (1,062,000)	\$ 280,000	\$ 753,000
For export	\$ (1,373,000)	\$ 19,000	\$ 654,000
For import			
Imports and re-exports			
As reported	\$ (0.10)	\$ 0.03	\$ 0.72
For export	\$ (0.12)	\$ 0.00	\$ 0.60
For import			
Imports and re-exports			
As reported	\$ (0.10)	\$ 0.03	\$ 0.72
For export	\$ (0.12)	\$ 0.00	\$ 0.60

(5) Long-term debt
At December 31, 1999 and 1998, long-term debt consisted of the following:

	December 31, 1999	December 31, 1998
Long-term debt	\$ 4,009,000	\$ 4,009,000
Current portion of long-term debt	(1,971,000)	(1,971,000)
Long-term debt, net	\$ 2,038,000	\$ 2,038,000

The Company prepaid its \$4,000,000 note payable to Banc One Capital Partners II, LLC on June 30, 1998 and incurred a prepayment premium equal to 4% of the amount, totaling \$160,000. In addition, the Company wrote-off the remaining debt discount related to the note payable of \$1,282,000. The prepayment penalty and write-off of the debt discount totaling \$1,442,000 were recorded as an extraordinary item, net of the related income tax benefit of \$533,000.

Debt maturities of long-term debt as of December 31, 1999, are as follows:

Capital Leases

(6) **Income Taxes**
The Company has operated in three countries, the United States, Canada and Australia. For income tax return reporting purposes, the Company has approximately \$11,200,000 of net operating loss carryforwards and approximately \$723,000 of tax credit carryforwards available to offset future federal taxable income or federal tax liabilities in the United States. The research and development credit and net operating loss carryforwards expire at various dates through 2019.

The Tax Reform Act of 1986 contains provisions which may limit the net operating loss and credit carryforwards available to be used in any given year upon the occurrence of certain events including significant changes in ownership of the Company. In accordance with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), a greater than 50% change in ownership of a company within a three-year period results in an annual limitation on the Company's ability to utilize its net operating loss carryforwards from tax periods prior to the ownership change.

Deferred income tax assets and liabilities at December 31, 1999 and 1998, were as follows:

December 31,

	1999	1998
Current:		
Income tax receivable	\$48,000	\$18,000
Deferred tax assets	70,000	20,000
Deferred tax liabilities	(57,000)	(18,000)
Net current deferred tax assets	\$61,000	\$20,000
Noncurrent:		
Deferred tax assets	(1,057,000)	(1,057,000)
Deferred tax liabilities	150,000	150,000
Net noncurrent deferred tax liabilities	(907,000)	(907,000)
Net deferred tax assets	\$54,000	\$13,000
Net deferred tax assets and liabilities	\$54,000	\$13,000

The Company recorded an income tax benefit of \$568,000 in 1999 as it believes that it is more likely than not that the net operating loss generated will be utilized against future earnings. As of December 31, 1998, the Company reversed \$1,689,000 of the valuation allowance on part of its deferred tax assets, as the Company believes it is more likely than not that such tax benefits will be realized. Approximately \$533,000 of the income tax benefit in 1998 was allocated to the extraordinary loss on early extinguishment of debt.

Management believes the remaining tax assets of \$450,000 as of December 31, 1999 relate to tax credits that do not satisfy the realization criteria set forth in SFAS No. 109 and has recorded a valuation allowance for such net tax assets.

December 31,

	1999	1998
Operating income:		
Revenue	\$1,000,000	\$1,000,000
Cost of revenue	(468,000)	(468,000)
Operating income	\$532,000	\$532,000
Other income:		
Interest income	124,000	124,000
Interest expense	(81,000)	(81,000)
Change in income tax expense	\$568,000	\$568,000
Net income	\$1,143,000	\$1,143,000
Net income per share:		
Basic	\$1.14	\$1.14
Diluted	\$1.14	\$1.14
Weighted average shares:		
Basic	1,000,000	1,000,000
Diluted	1,000,000	1,000,000

(7) Commitments

The Company leases its office and research facilities and certain equipment under operating lease agreements which expire through November 2003. Rent expense for the years ended December 31, 1999, 1998 and 1997 was approximately \$1,370,000, \$1,030,000 and \$718,000, respectively. Future minimum lease obligations under these agreements are as follows:

	1999	1998
2000	\$1,370,000	\$1,030,000
2001	\$1,370,000	\$1,030,000
2002	\$1,370,000	\$1,030,000
2003	\$1,370,000	\$1,030,000
2004	\$1,370,000	\$1,030,000
2005	\$1,370,000	\$1,030,000
2006	\$1,370,000	\$1,030,000
2007	\$1,370,000	\$1,030,000
2008	\$1,370,000	\$1,030,000
2009	\$1,370,000	\$1,030,000
2010	\$1,370,000	\$1,030,000
2011	\$1,370,000	\$1,030,000
2012	\$1,370,000	\$1,030,000
2013	\$1,370,000	\$1,030,000
2014	\$1,370,000	\$1,030,000
2015	\$1,370,000	\$1,030,000
2016	\$1,370,000	\$1,030,000
2017	\$1,370,000	\$1,030,000
2018	\$1,370,000	\$1,030,000
2019	\$1,370,000	\$1,030,000
2020	\$1,370,000	\$1,030,000
2021	\$1,370,000	\$1,030,000
2022	\$1,370,000	\$1,030,000
2023	\$1,370,000	\$1,030,000
2024	\$1,370,000	\$1,030,000
2025	\$1,370,000	\$1,030,000
2026	\$1,370,000	\$1,030,000
2027	\$1,370,000	\$1,030,000
2028	\$1,370,000	\$1,030,000
2029	\$1,370,000	\$1,030,000
2030	\$1,370,000	\$1,030,000
2031	\$1,370,000	\$1,030,000
2032	\$1,370,000	\$1,030,000
2033	\$1,370,000	\$1,030,000
2034	\$1,370,000	\$1,030,000
2035	\$1,370,000	\$1,030,000
2036	\$1,370,000	\$1,030,000
2037	\$1,370,000	\$1,030,000
2038	\$1,370,000	\$1,030,000
2039	\$1,370,000	\$1,030,000
2040	\$1,370,000	\$1,030,000
2041	\$1,370,000	\$1,030,000
2042	\$1,370,000	\$1,030,000
2043	\$1,370,000	\$1,030,000
2044	\$1,370,000	\$1,030,000
2045	\$1,370,000	\$1,030,000
2046	\$1,370,000	\$1,030,000
2047	\$1,370,000	\$1,030,000
2048	\$1,370,000	\$1,030,000
2049	\$1,370,000	\$1,030,000
2050	\$1,370,000	\$1,030,000
2051	\$1,370,000	\$1,030,000
2052	\$1,370,000	\$1,030,000
2053	\$1,370,000	\$1,030,000
2054	\$1,370,000	\$1,030,000
2055	\$1,370,000	\$1,030,000
2056	\$1,370,000	\$1,030,000
2057	\$1,370,000	\$1,030,000
2058	\$1,370,000	\$1,030,000
2059	\$1,370,000	\$1,030,000
2060	\$1,370,000	\$1,030,000
2061	\$1,370,000	\$1,030,000
2062	\$1,370,000	\$1,030,000
2063	\$1,370,000	\$1,030,000
2064	\$1,370,000	\$1,030,000
2065	\$1,370,000	\$1,030,000
2066	\$1,370,000	\$1,030,000
2067	\$1,370,000	\$1,030,000
2068	\$1,370,000	\$1,030,000
2069	\$1,370,000	\$1,030,000
2070	\$1,370,000	\$1,030,000
2071	\$1,370,000	\$1,030,000
2072	\$1,370,000	\$1,030,000
2073	\$1,370,000	\$1,030,000
2074	\$1,370,000	\$1,030,000
2075	\$1,370,000	\$1,030,000
2076	\$1,370,000	\$1,030,000
2077	\$1,370,000	\$1,030,000
2078	\$1,370,000	\$1,030,000
2079	\$1,370,000	\$1,030,000
2080	\$1,370,000	\$1,030,000
2081	\$1,370,000	\$1,030,000
2082	\$1,370,000	\$1,030,000
2083	\$1,370,000	\$1,030,000
2084	\$1,370,000	\$1,030,000
2085	\$1,370,000	\$1,030,000
2086	\$1,370,000	\$1,030,000
2087	\$1,370,000	\$1,030,000
2088	\$1,370,000	\$1,030,000
2089	\$1,370,000	\$1,030,000
2090	\$1,370,000	\$1,030,000
2091	\$1,370,000	\$1,030,000
2092	\$1,370,000	\$1,030,000
2093	\$1,370,000	\$1,030,000
2094	\$1,370,000	\$1,030,000
2095	\$1,370,000	\$1,030,000
2096	\$1,370,000	\$1,030,000
2097	\$1,370,000	\$1,030,000
2098	\$1,370,000	\$1,030,000
2099	\$1,370,000	\$1,030,000
2100	\$1,370,000	\$1,030,000

(8) Employee Benefit Plan

The Company has a 401(k) plan under which eligible employees may defer up to 15% of their compensation. The Company may make matching contributions and discretionary contributions if approved by the Board of Directors. For 1998 and 1997, no employer matching or discretionary contributions were made to the 401(k) plan. However, in February 1999, the Company's Board of Directors approved a matching contribution for employees, which was effective April 1, 1999. The Company matches 50% of employee contributions up to 6% of the employee's salary, not to exceed \$1,000 in 1999 and 2000, respectively. Matching contributions will vest 35%, 70% and 100% for one, two and three years of service, respectively.

(9) Related Party Transaction

The Company provides data management and certain consulting services to and leases equipment from entities in which a stockholder of the Company has an ownership interest. A representative of the stockholder was a member of the Company's Board of Directors until December 2, 1999. The Company received net proceeds of approximately \$6,979,000, \$6,735,000 and \$6,959,000 in 1999, 1998 and 1997, respectively, pursuant to these agreements. Amounts due to the stockholder under the capital lease agreements net of amounts due to the Company for services rendered as of December 31, 1999 and 1998 were \$3,262,000 and \$3,962,000, respectively. The leases have interest rates ranging from 7.75% to 9.50%, require monthly payments and have expiration dates varying through October 2002.

(10) Reportable Segments and Major Customers

The Company has two reportable segments, data management services and licenses and implementation services. The Company measures its reportable segments based on revenue for each segment and costs directly related to each segment. General and administrative, sales and

marketing and other costs are not measured by segment. Data management services include the provisioning of an outsourcing solution for 9-1-1 data management to customers, including ILECs, CLECs, wireless carriers and state and local governments. Licenses and implementation services include the licensing, customization and installation of the Company's 9-1-1 software solutions. Substantially all of the Company's customers are in the United States.

These segments are managed separately because the nature of and resources used for each segment is unique. Data management services include ongoing data management and monitoring of systems and other enhanced services. Under data management services, the customer's data is transferred to the Company's systems and the Company owns the systems used to manage the data. Under licenses and implementation services, the customer performs data management and systems monitoring activities. The customer also owns the hardware, licenses the Company's software and maintains the data on its internal systems under this segment.

Revenue and costs are segregated in the Statement of Operations for the two reportable segments. The Company does not segregate assets between the segments as it is impractical to do so.

Major Customers

Revenue from certain customers exceeded 10% of total revenue for the respective year as follows: 27%, 27% and 26% in 1999; 27%, 25% and 21% in 1998 and 30%, 29% and 22% in 1997. Contracts with certain of these customers have a ten-year duration and provide for fixed monthly fees based upon the number of subscriber records managed and upon the services selected by the customer. All of these customers are in the Company's data management services segment.

(11) Legal Matters

The Company is subject to various claims and business disputes in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management anticipates that the ultimate outcome of the issues will not have a material impact on the financial statements. Federal and state regulations governing 9-1-1 service provisioning have typically applied to local exchange services providers. The Company plans to provide 9-1-1 services directly to state and local governments rather than local exchange carriers in certain areas. Since this is the first time that such services have been provided in this manner, the regulations are being challenged and clarified for the first time. The Company believes that the services it provides are within the scope of the existing regulations and that any challenges in the regulations will be decided in the Company's favor. However, if the regulations are challenged and are not decided in the Company's favor, the Company may be prohibited from expanding its services to certain markets.

Report of Independent Public Accountants

To the Board of Directors and Stockholders of SCC Communications Corp.:

We have audited the accompanying balance sheets of SCC Communications Corp. (a Delaware corporation) as of December 31, 1999 and 1998, and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCC Communications Corp. as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Denver, Colorado

January 21, 2000

Market for the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the Nasdaq National Market under the symbol "SCCX." We commenced our initial public offering of the common stock on June 24, 1998 at a price of \$12 per share. Prior to such date, there was no public market for the common stock. The following table sets forth the high and low bid prices for the common stock for the periods indicated, as reported on the Nasdaq National Market.

HIGH LOW

As of February 29, 2000, there were approximately 173 holders of record.

We have not paid any cash dividends on our capital stock since our inception, and do not expect to pay cash dividends on our common stock in the foreseeable future. Certain covenants contained in our line of credit agreement restrict the payment of dividends without the lender's prior consent. Payments of future dividends, if any, will be at the discretion of our Board of Directors, subject to the restrictions discussed above, after taking into account various factors, including our financial condition, operating results, cash needs and expansion plans.

Corporate Information

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President and Chief Executive Officer
SCC Communications Corp.

Stephen J. Jans
Independent Executive Director
Charles Rosenblatt
Director

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Denver, Colorado 80202

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Footnotes

1. National Emergency Number Association
2. SCC Communications Corp.
3. Strategic Group as quoted in 1999 Phone Facts, United States Telecom Association
4. Cellular Telephone Institute Association
5. Cellular Telephone Institute Association
6. Strategic Group

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SCC News

NEWS RELEASE

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WINfirst Selects SCC Communications to Provide 9-1-1 Service to Customers

FOR IMMEDIATE RELEASE

Boulder, Colo. (December 7, 2000)—SCC Communications (Nasdaq: SCCX), the world's leading provider of 9-1-1 data management services, announced today that WINfirst has selected SCC's TelConnectSM package to provide enhanced 9-1-1 (E9-1-1) service to WINfirst residential customers. The TelConnect system will allow WINfirst customers access to immediate and reliable 9-1-1 service.

Based in Denver, WINfirst is building an entirely new fiber-to-the-home (FTTH) residential network that will provide high bandwidth for voice, video and data applications. WINfirst has already received regulatory approval to build networks in Sacramento and San Diego, California; Austin, Dallas, Houston and San Antonio, Texas; and has received a temporary permit pending full approval in Portland, Oregon. Combined, WINfirst will provide its service to more than 3.2 million homes. WINfirst is pursuing regulatory approval in San Francisco, Oakland, California, Los Angeles, Seattle, Phoenix and Nevada.

WINfirst, which signed a three-year contract with SCC, will now benefit from the leading-edge TelConnect suite of 9-1-1 data management services. TelConnect enables integrated communications providers (ICPs) and competitive local exchange carriers (CLECs) to cost-effectively outsource the complex job of meeting 9-1-1 data management requirements.

"WINfirst is committed to providing its customers with the highest quality service and that includes 9-1-1 emergency service. This is an essential service and we wanted to work with the country's leading and most experienced provider of 9-1-1 data management services," said Frank Casazza, WINfirst president and chief operating officer. "We realize the critical importance of 9-1-1 service. It can be a matter of life and death—which is why we selected SCC to provide our customers with the most accurate and reliable access to 9-1-1 emergency service available."

"TelConnect will handle all of WINfirst's data validation and formatting, error analysis and resolution and delivery of the data to the appropriate public safety agencies," said Mark Scott, vice president and general manager of SCC's CLEC business unit. "And while our experts manage these time-consuming but critical tasks, WINfirst can focus on expanding its markets and services."

About SCC

SCC Communications Corp. (Nasdaq: SCCX) is the leading provider of 9-1-1 data management services to incumbent local exchange carriers (ILECs), competitive local exchange carriers (CLECs), integrated communications providers (ICPs) and wireless carriers in the United States. SCC manages the data that allows the routing and delivery of 9-1-1 calls to the appropriate answering point along with accurate information about the caller's location. SCC provides 9-1-1 services to 20 leading wireless telecommunications carriers and 38 leading wireline telecommunications carriers. SCC currently manages the records for approximately 99.4 million wireline and wireless telephone subscribers, including 4.8 million CLEC subscribers, and more than 2.5 million revenue-generating wireless subscribers. The company also develops innovative, value-added information technology systems and software products for the location-based services market. To receive SCC press releases and company updates via e-mail, please register at the company's Web site: <http://www.scc911.com>.

About WINfirst

WINfirst is building a new fiber-to-the-home residential network using fiber-optic technology in conjunction with Ethernet networking standards to break the last-mile bottleneck. WINfirst will provide the highest quality of customer service and choice, the convenience of one-stop shopping for Internet, cable TV and telephone service and the value of a bundled-service offering. For more information about WINfirst, visit <http://www.winfirst.com>.

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Statement of Financial Accounting Standards No. 123 ("SFAS 123")

SFAS 123, "Accounting for Stock-Based Compensation," defines a fair value based method of accounting for employee stock options or similar equity instruments. However, SFAS 123 allows the continued measurement of compensation cost for such plans using the intrinsic value based method prescribed by APB Opinion No. 25, provided that pro forma disclosures are made of net income or loss assuming the fair value based method of SFAS 123 had been applied. The Company has elected to account for its stock-based compensation plans under APB 25; accordingly, for purposes of the pro forma disclosures presented below, the Company has compared the fair values of all options granted under the 1988 Plan, which succeeds the 1980 Option Plan, during 1999, 1998 and 1997, using the Black-Scholes pricing model and the following weighted average assumptions:

To estimate lives of options for this valuation, it was assumed options will be exercised upon becoming fully vested. All options are initially assumed to vest. Cumulative compensation costs recognized in pro forma net income or loss with respect to options that are forfeited prior to vesting is adjusted as a reduction of pro forma compensation expense in the period of forfeiture. Because the Company's common stock was not yet publicly traded, the expected market volatility was assumed to be zero in 1997. In 1998 and 1999, the Company's common stock was not yet traded for an extended period of time, thus the expected market volatility was based on the stock prices of companies whose operations are similar to the Company's.

Actual volatility of the Company's common stock may vary. Fair value computations are highly sensitive to the volatility factor assumed; the greater the volatility, the higher the computed fair value of options granted.

The total fair value of options granted under the 1998 Option Plan and the ESPP was computed to be approximately \$2,630,000, \$1,406,000 and \$499,000 for the years ended December 31, 1999, 1998 and 1997, respectively. These amounts are amortized ratably over the vesting periods of the options or recognized at date of grant if no vesting period is required. Pro forma stock-based compensation, net of the effect of forfeitures, was \$496,000, \$417,000 and \$232,000 for 1999, 1998 and 1997, respectively.

A summary of stock options under the 1998 Plan and the ESPP as of December 31, 1999, 1998 and 1997 and changes during the year then ended are presented below:

	1999	1998	1997
Options outstanding at beginning of year	1,338,860	1,362,000	1,362,000
Options granted during year	140,364	215,000	215,000
Options exercised during year	(179,079)	(236,000)	(236,000)
Options expired during year	(243,301)	(543,000)	(543,000)
Options outstanding at end of year	1,056,844	1,808,000	1,808,000
Weighted Average Exercise Price	\$ 3.34	\$ 3.34	\$ 3.34

The following table summarizes information about the options outstanding at December 31, 1999:

Range of Exercise Prices	Options Outstanding				Options Exercisable			
	Number of Options Outstanding at December 31, 1999	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable at December 31, 1999	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$0.00 - \$1.00	1,056,844	\$ 3.34	3.34	\$ 3.34	1,056,844	\$ 3.34	3.34	\$ 3.34

If the Company had accounted for its stock-based compensation plan in accordance with SFAS 123, the Company's net income from continuing operations would have been reported as follows:

	1999	1998	1997
Net income from continuing operations	\$ (1,062,000)	\$ (1,062,000)	\$ (1,062,000)
Pro forma net income from continuing operations	\$ (1,573,000)	\$ (1,573,000)	\$ (1,573,000)
Pro forma net income from continuing operations, assuming the Company had accounted for its stock-based compensation plan in accordance with SFAS 123	\$ (1,573,000)	\$ (1,573,000)	\$ (1,573,000)
Pro forma net income from continuing operations, assuming the Company had accounted for its stock-based compensation plan in accordance with SFAS 123	\$ (1,573,000)	\$ (1,573,000)	\$ (1,573,000)
Pro forma net income from continuing operations, assuming the Company had accounted for its stock-based compensation plan in accordance with SFAS 123	\$ (1,573,000)	\$ (1,573,000)	\$ (1,573,000)
Pro forma net income from continuing operations, assuming the Company had accounted for its stock-based compensation plan in accordance with SFAS 123	\$ (1,573,000)	\$ (1,573,000)	\$ (1,573,000)
Pro forma net income from continuing operations, assuming the Company had accounted for its stock-based compensation plan in accordance with SFAS 123	\$ (1,573,000)	\$ (1,573,000)	\$ (1,573,000)
Pro forma net income from continuing operations, assuming the Company had accounted for its stock-based compensation plan in accordance with SFAS 123	\$ (1,573,000)	\$ (1,573,000)	\$ (1,573,000)
Pro forma net income from continuing operations, assuming the Company had accounted for its stock-based compensation plan in accordance with SFAS 123	\$ (1,573,000)	\$ (1,573,000)	\$ (1,573,000)
Pro forma net income from continuing operations, assuming the Company had accounted for its stock-based compensation plan in accordance with SFAS 123	\$ (1,573,000)	\$ (1,573,000)	\$ (1,573,000)

(5) Long-term debt
At December 31, 1999 and 1998, long-term debt consisted of the following:

	December 31, 1999	December 31, 1998
Long-term debt	\$ 4,000,000	\$ 4,000,000
Long-term debt	\$ 4,000,000	\$ 4,000,000
Long-term debt	\$ 4,000,000	\$ 4,000,000
Long-term debt	\$ 4,000,000	\$ 4,000,000
Long-term debt	\$ 4,000,000	\$ 4,000,000
Long-term debt	\$ 4,000,000	\$ 4,000,000
Long-term debt	\$ 4,000,000	\$ 4,000,000
Long-term debt	\$ 4,000,000	\$ 4,000,000
Long-term debt	\$ 4,000,000	\$ 4,000,000
Long-term debt	\$ 4,000,000	\$ 4,000,000

The Company prepaid its \$4,000,000 note payable to Banc One Capital Partners II, LLC on June 30, 1998 and incurred a prepayment premium equal to 4% of the amount, totaling \$160,000. In addition, the Company wrote-off the remaining debt discount related to the note payable of \$1,282,000. The prepayment penalty and write-off of the debt discount totaling \$1,442,000 were recorded as an extraordinary item, net of the related income tax benefit of \$533,000.

Debt maturities of long-term debt as of December 31, 1998, are as follows:

Capital Leases

	December 31, 1999	December 31, 1998
Capital leases	\$ 4,000,000	\$ 4,000,000
Capital leases	\$ 4,000,000	\$ 4,000,000
Capital leases	\$ 4,000,000	\$ 4,000,000
Capital leases	\$ 4,000,000	\$ 4,000,000
Capital leases	\$ 4,000,000	\$ 4,000,000
Capital leases	\$ 4,000,000	\$ 4,000,000
Capital leases	\$ 4,000,000	\$ 4,000,000
Capital leases	\$ 4,000,000	\$ 4,000,000
Capital leases	\$ 4,000,000	\$ 4,000,000
Capital leases	\$ 4,000,000	\$ 4,000,000

(6) Income Taxes

The Company has operated in three countries, the United States, Canada and Australia. For income tax return reporting purposes, the Company has approximately \$11,200,000 of net operating loss carryforwards and approximately \$723,000 of tax credit carryforwards available to offset future federal taxable income or federal tax liabilities in the United States. The research and development credit and net operating loss carryforwards expire at various dates through 2019.

The Tax Reform Act of 1986 contains provisions which may limit the net operating loss and credit carryforwards available to be used in any given year upon the occurrence of certain events including significant changes in ownership of the Company. In accordance with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), a greater than 50% change in ownership of a company within a three-year period results in an annual limitation on the Company's ability to utilize its net operating loss carryforwards from tax periods prior to the ownership change.

Deferred income tax assets and liabilities at December 31, 1999 and 1998, were as follows:

December 31,

	1999	1998
Current:		
State income tax	\$40,000	\$132,000
Other non-current assets	70,000	200,000
Non-current liabilities	(57,000)	(120,000)
Non-current:		
State income tax	(167,000)	(100,000)
Other non-current assets	150,000	100,000
Other non-current liabilities	(93,000)	(124,000)
Total	\$1,076,000	\$1,076,000

The Company recorded an income tax benefit of \$568,000 in 1999 as it believes that it is more likely than not that the net operating loss generated will be utilized against future earnings. As of December 31, 1998, the Company reversed \$1,589,000 of the valuation allowance on part of its deferred tax assets, as the Company believes it is more likely than not that such tax benefits will be realized. Approximately \$533,000 of the income tax benefit in 1998 was allocated to the extraordinary loss on early extinguishment of debt.

Management believes the remaining tax assets of \$450,000 as of December 31, 1999 relate to tax credits that do not satisfy the realization criteria set forth in SFAS No. 109 and has recorded a valuation allowance for such net tax assets.

December 31,

Income Statement			
	1999	1998	1997
Operating income	\$1,076,000	\$1,076,000	\$1,076,000
Interest income	112,000	112,000	112,000
Other income	112,000	112,000	112,000
Income tax expense	(468,000)	(468,000)	(468,000)
Income before extraordinary loss	\$832,000	\$832,000	\$832,000
Extraordinary loss on early extinguishment of debt	(1,124,000)	(1,124,000)	(1,124,000)
Income before income tax	(292,000)	(292,000)	(292,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(192,000)	(192,000)	(192,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(760,000)	(760,000)	(760,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(860,000)	(860,000)	(860,000)
Extraordinary loss on early extinguishment of debt	(1,124,000)	(1,124,000)	(1,124,000)
Income before income tax	(1,984,000)	(1,984,000)	(1,984,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(2,084,000)	(2,084,000)	(2,084,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(2,652,000)	(2,652,000)	(2,652,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(2,752,000)	(2,752,000)	(2,752,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(3,320,000)	(3,320,000)	(3,320,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(3,420,000)	(3,420,000)	(3,420,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(3,988,000)	(3,988,000)	(3,988,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(4,088,000)	(4,088,000)	(4,088,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(4,656,000)	(4,656,000)	(4,656,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(4,756,000)	(4,756,000)	(4,756,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(5,324,000)	(5,324,000)	(5,324,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(5,424,000)	(5,424,000)	(5,424,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(5,992,000)	(5,992,000)	(5,992,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(6,092,000)	(6,092,000)	(6,092,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(6,660,000)	(6,660,000)	(6,660,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(6,760,000)	(6,760,000)	(6,760,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(7,328,000)	(7,328,000)	(7,328,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(7,428,000)	(7,428,000)	(7,428,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(8,000,000)	(8,000,000)	(8,000,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(8,100,000)	(8,100,000)	(8,100,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(8,672,000)	(8,672,000)	(8,672,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(8,772,000)	(8,772,000)	(8,772,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(9,340,000)	(9,340,000)	(9,340,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(9,440,000)	(9,440,000)	(9,440,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(10,008,000)	(10,008,000)	(10,008,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(10,108,000)	(10,108,000)	(10,108,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(10,680,000)	(10,680,000)	(10,680,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(10,780,000)	(10,780,000)	(10,780,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(11,352,000)	(11,352,000)	(11,352,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(11,452,000)	(11,452,000)	(11,452,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(12,024,000)	(12,024,000)	(12,024,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(12,124,000)	(12,124,000)	(12,124,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(12,696,000)	(12,696,000)	(12,696,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(12,796,000)	(12,796,000)	(12,796,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(13,372,000)	(13,372,000)	(13,372,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(13,472,000)	(13,472,000)	(13,472,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(14,044,000)	(14,044,000)	(14,044,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(14,144,000)	(14,144,000)	(14,144,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(14,720,000)	(14,720,000)	(14,720,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(14,820,000)	(14,820,000)	(14,820,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(15,392,000)	(15,392,000)	(15,392,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(15,492,000)	(15,492,000)	(15,492,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(16,064,000)	(16,064,000)	(16,064,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(16,164,000)	(16,164,000)	(16,164,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(16,740,000)	(16,740,000)	(16,740,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(16,840,000)	(16,840,000)	(16,840,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(17,412,000)	(17,412,000)	(17,412,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(17,512,000)	(17,512,000)	(17,512,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(18,084,000)	(18,084,000)	(18,084,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(18,184,000)	(18,184,000)	(18,184,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(18,760,000)	(18,760,000)	(18,760,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(18,860,000)	(18,860,000)	(18,860,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(19,432,000)	(19,432,000)	(19,432,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(19,532,000)	(19,532,000)	(19,532,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(20,104,000)	(20,104,000)	(20,104,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(20,204,000)	(20,204,000)	(20,204,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(20,780,000)	(20,780,000)	(20,780,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(20,880,000)	(20,880,000)	(20,880,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(21,452,000)	(21,452,000)	(21,452,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(21,552,000)	(21,552,000)	(21,552,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(22,128,000)	(22,128,000)	(22,128,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(22,228,000)	(22,228,000)	(22,228,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(22,804,000)	(22,804,000)	(22,804,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(22,904,000)	(22,904,000)	(22,904,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(23,480,000)	(23,480,000)	(23,480,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(23,580,000)	(23,580,000)	(23,580,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(24,156,000)	(24,156,000)	(24,156,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(24,256,000)	(24,256,000)	(24,256,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(24,832,000)	(24,832,000)	(24,832,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(24,932,000)	(24,932,000)	(24,932,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(25,508,000)	(25,508,000)	(25,508,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(25,608,000)	(25,608,000)	(25,608,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(26,184,000)	(26,184,000)	(26,184,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(26,284,000)	(26,284,000)	(26,284,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(26,860,000)	(26,860,000)	(26,860,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(26,960,000)	(26,960,000)	(26,960,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(27,536,000)	(27,536,000)	(27,536,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(27,636,000)	(27,636,000)	(27,636,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(28,212,000)	(28,212,000)	(28,212,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(28,312,000)	(28,312,000)	(28,312,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(28,892,000)	(28,892,000)	(28,892,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(28,992,000)	(28,992,000)	(28,992,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(29,572,000)	(29,572,000)	(29,572,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(29,672,000)	(29,672,000)	(29,672,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(30,252,000)	(30,252,000)	(30,252,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(30,352,000)	(30,352,000)	(30,352,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(30,932,000)	(30,932,000)	(30,932,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(31,032,000)	(31,032,000)	(31,032,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(31,612,000)	(31,612,000)	(31,612,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(31,712,000)	(31,712,000)	(31,712,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(32,292,000)	(32,292,000)	(32,292,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(32,392,000)	(32,392,000)	(32,392,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(32,972,000)	(32,972,000)	(32,972,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(33,072,000)	(33,072,000)	(33,072,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(33,652,000)	(33,652,000)	(33,652,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(33,752,000)	(33,752,000)	(33,752,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(34,332,000)	(34,332,000)	(34,332,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(34,432,000)	(34,432,000)	(34,432,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(35,012,000)	(35,012,000)	(35,012,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(35,112,000)	(35,112,000)	(35,112,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(35,692,000)	(35,692,000)	(35,692,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(35,792,000)	(35,792,000)	(35,792,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(36,372,000)	(36,372,000)	(36,372,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(36,472,000)	(36,472,000)	(36,472,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(37,052,000)	(37,052,000)	(37,052,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss	(37,152,000)	(37,152,000)	(37,152,000)
Extraordinary loss on early extinguishment of debt	(568,000)	(568,000)	(568,000)
Income before income tax	(37,732,000)	(37,732,000)	(37,732,000)
Income tax expense	(100,000)	(100,000)	(100,000)
Income before extraordinary loss			

Report of Independent Public Accountants

To the Board of Directors and Stockholders of SCC Communications Corp.:

We have audited the accompanying balance sheets of SCC Communications Corp. (a Delaware corporation) as of December 31, 1999 and 1998, and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCC Communications Corp. as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Denver, Colorado

January 21, 2000

Market for the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the Nasdaq National Market under the symbol "SCCX." We commenced our initial public offering of the common stock on June 24, 1998 at a price of \$12 per share. Prior to such date, there was no public market for the common stock. The following table sets forth the high and low bid prices for the common stock for the periods indicated, as reported on the Nasdaq National Market.

HTGH LOW

As of February 29, 2000, there were approximately 173 holders of record.

We have not paid any cash dividends on our capital stock since our inception, and do not expect to pay cash dividends on our common stock in the foreseeable future. Certain covenants contained in our first credit agreement restrict the payment of dividends without the lender's prior consent. Payments of future dividends, if any, will be at the discretion of our Board of Directors, subject to the restrictions discussed above, after taking into account various factors, including our financial condition, operating results, cash needs and expansion plans.

Corporate Information

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Ralph G. Jones
Independent Executive Director
David Kestel
Member
RBB Management LLC
Mary Beth Viner
Vice President and Chief Financial Officer
Walter M. Miller
Vice President
William J. Miller
Vice President and Chief Operating Officer
Mark O. Miller
Vice President
David A. Williams
Chief Compliance Officer
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For further information on SCC, which is a member of the
Nasdaq National Market, please visit the website
www.scc.com or call 303.581.5000.

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SCC Communications Corp. is a public stock market on the
Nasdaq National Market under the symbol SCCX.

Footnotes

1. National Emergency Number Association
2. SCC Communications Corp.
3. Strategic Group as quoted in 1999 Phone Facts, United States Telecom Association
4. Cellular Telephone Institute Association
5. Cellular Telephone Institute Association
6. Strategic Group

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SCC News

NEWS RELEASE

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WINfirst Selects SCC Communications to Provide 9-1-1 Service to Customers

FOR IMMEDIATE RELEASE

Boulder, Colo. (December 7, 2000)--SCC Communications (Nasdaq: SCCX), the world's leading provider of 9-1-1 data management services, announced today that WINfirst has selected SCC's TelConnectSM package to provide enhanced 9-1-1 (E9-1-1) service to WINfirst residential customers. The TelConnect system will allow WINfirst customers access to immediate and reliable 9-1-1 service.

Based in Denver, WINfirst is building an entirely new fiber-to-the-home (FTTH) residential network that will provide high bandwidth for voice, video and data applications. WINfirst has already received regulatory approval to build networks in Sacramento and San Diego, California; Austin, Dallas, Houston and San Antonio, Texas; and has received a temporary permit pending full approval in Portland, Oregon. Combined, WINfirst will provide its service to more than 3.2 million homes. WINfirst is pursuing regulatory approval in San Francisco, Oakland, California, Los Angeles, Seattle, Phoenix and Nevada.

WINfirst, which signed a three-year contract with SCC, will now benefit from the leading-edge TelConnect suite of 9-1-1 data management services. TelConnect enables integrated communications providers (ICPs) and competitive local exchange carriers (CLECs) to cost-effectively outsource the complex job of meeting 9-1-1 data management requirements.

"WINfirst is committed to providing its customers with the highest quality service and that includes 9-1-1 emergency service. This is an essential service and we wanted to work with the country's leading and most experienced provider of 9-1-1 data management services," said Frank Casazza, WINfirst president and chief operating officer. "We realize the critical importance of 9-1-1 service. It can be a matter of life and death-which is why we selected SCC to provide our customers with the most accurate and reliable access to 9-1-1 emergency service available."

"TelConnect will handle all of WINfirst's data validation and formatting, error analysis and resolution and delivery of the data to the appropriate public safety agencies," said Mark Scott, vice president and general manager of SCC's CLEC business unit. "And while our experts manage these time-consuming but critical tasks, WINfirst can focus on expanding its markets and services."

About SCC

SCC Communications Corp. (Nasdaq: SCCX) is the leading provider of 9-1-1 data management services to incumbent local exchange carriers (ILECs), competitive local exchange carriers (CLECs), integrated communications providers (ICPs) and wireless carriers in the United States. SCC manages the data that allows the routing and delivery of 9-1-1 calls to the appropriate answering point along with accurate information about the caller's location. SCC provides 9-1-1 services to 20 leading wireless telecommunications carriers and 38 leading wireline telecommunications carriers. SCC currently manages the records for approximately 99.4 million wireline and wireless telephone subscribers, including 4.8 million CLEC subscribers, and more than 2.5 million revenue-generating wireless subscribers. The company also develops innovative, value-added information technology systems and software products for the location-based services market. To receive SCC press releases and company updates via e-mail, please register at the company's Web site: <http://www.scc911.com>.

About WINfirst

WINfirst is building a new fiber-to-the-home residential network using fiber-optic technology in conjunction with Ethernet networking standards to break the last-mile bottleneck. WINfirst will provide the highest quality of customer service and choice, the convenience of one-stop shopping for Internet, cable TV and telephone service and the value of a bundled-service offering. For more information about WINfirst, visit <http://www.winfirst.com>.

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